



WINTER 2010 UPDATE

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LOBBY HOURS: MONDAY – FRIDAY 7AM – 7PM | SATURDAY 9AM – 2PM

A MESSAGE FROM OUR CHAIRMAN



Dear Shareholders and Friends:

Legendary investor Warren Buffet was once asked what is the most important thing he looks for when evaluating a company. Without hesitation, he replied, "Sustainable competitive advantage."

To HomeTown Bank, the question becomes, "How do we differentiate our Bank from the big national banks, the regional banks and other community banks in order to maintain a sustainable competitive advantage?" Since our founding, we have sought to differentiate HomeTown Bank based on local ownership and management, resulting in prompt and informed decision making . . . and unsurpassed customer service.

Our experience, especially in the last eighteen months, indicates that many local businesses and individuals have concluded that they are better served by a local bank offering exceptional attention and service. Like the Ritz-Carlton hotels, we are focused on our customers and we promise customer service exceeding all of our competitors. At HomeTown Bank, our customers can interact face-to-face with our financial specialists, and indeed with any of our employees, rather than battle the prompts and delays of dealing with an 800 number or waiting for a response from some distant location.

The exceptional service our customers can expect from HomeTown Bank includes not only helpful attitudes and smiling faces but also convenient banking hours unmatched in our markets. All of our offices are open from 7 – 7 on weekdays and from 9 – 2 on Saturdays. Our hours are designed with our customers in mind and not for the convenience of the Bank and its employees. It is our pleasure to serve our customers during these extended hours.

A competitive advantage is doing your job particularly well and better than your competition. And it is also an advantage that is sustainable through all types of changes and market conditions.

We believe we have been successful in maintaining our competitive advantage. As we continue to adhere to the principles on which we were founded and when market conditions improve, we believe our stock will be the beneficiary of these better environmental conditions, coupled with our solid growth and operating performance.

William R. Rakes
Chairman, Board of Directors

A MESSAGE FROM OUR PRESIDENT



Dear Shareholders and Friends:

We are very pleased to report continued profitability for the fourth quarter as well as a full year of profitability for 2009. These results are in spite of continued challenges in the national, regional and local economies. We are also pleased to report that, while net interest margins have been squeezed and loan quality has deteriorated for many banks across the country, HomeTown Bank has realized improved net interest margins during each quarter of 2009, and our loan quality continues to compare favorably with our banking peers.

Another highlight of 2009 has been the progress we have made in the expansion of local commercial relationships, in addition to the continued growth of our consumer banking clients. (See “Successfully Banking our Local Business Community” below). While we are cautiously optimistic about economic improvement in 2010, we remain steadfastly committed to actively serving our communities, prudently working with our customers during these difficult times, and continuing to grow our market share.

At December 31, 2009, HomeTown Bankshares Corporation’s total assets amounted to \$337.8 million, representing a \$104.2 million or 44.6% increase since the year-end of 2008. While the Bank tempered loan growth during the second half of 2009, deposits continued to increase nicely throughout the year, improving the Bank’s overall liquidity position. Our capital ratios have improved as well during 2009, as we remain a well-capitalized bank as determined by the FDIC.

HomeTown Bankshares earned net income available to shareholders of \$45,000 during the 4th quarter of 2009, with net income of \$323,000 for the full year of 2009. Earnings continue to compare favorably to net losses realized of \$906,000 and \$2.18 million during the fourth quarter of 2008 and the full year of 2008, respectively. Earnings available to common shareholders of \$0.11 per share were realized for the year ended December 31, 2009 vs. a loss of \$0.80 per share in 2008.

While our loan portfolio has been impacted by the difficult economy in 2009, HomeTown Bank’s portfolio continues to compare favorably to our banking industry peers. Non-performing assets amounted to \$4.63 million or 1.37% at December 31, 2009 vs. \$2.6 million and 1.10% of assets at December 31, 2008. Net loan losses for the quarter ending December 31, 2009 were \$78,000 and \$725,000 for the full year of 2009 vs. \$65,000 and \$257,000, respectively, in 2008. The allowance for loan losses totaled \$2.86 million or 1.13 % of loans at December 31, 2009 vs. \$2.86 million and 1.35%, respectively, at December 31, 2008.

We very much appreciate your continued interest and support of HomeTown Bankshares Corporation. We hope each of you will continue to assist us in encouraging those in our communities to “bank local” and realize the full benefit of a community

continued

banking experience with HomeTown Bank. Please visit us regularly on our new website, www.hometownbankva.com, to enjoy timely information about our Bank and our stock under our new ticker symbol – *HMTA*.

Susan K. Still
 President & CEO, HomeTown Bankshares Corporation
 February 2010

Balance Sheet

HomeTown Bankshares Corporation

Holding company of HomeTown Bank

Assets	Unaudited 12/31/2009	12/31/2008
	000's Omitted	000's Omitted
Cash and due from banks	\$7,006	\$3,186
Fed funds sold & repos	19,952	520
Investments	48,900	11,255
Loans, net of unearned income	252,668	211,253
Less: Allowance for loan losses	-2,862	-2,862
Premises & Equipment	8,197	8,607
Other Assets	3,944	1,676
Total Assets	<u>\$337,805</u>	<u>\$233,635</u>
 Liabilities		
Non-Interest Bearing Deposits	\$20,525	\$12,707
Interest Bearing Demand Deposits	70,506	52,123
Time Deposits	180,619	123,581
Total Deposits	<u>271,650</u>	<u>188,411</u>
Borrowings	30,914	19,098
Other Liabilities	1,461	1,628
	<u>\$304,025</u>	<u>\$209,137</u>
 Equity		
Preferred Stock	10,019	0
Common Stock	14,697	14,697
Capital Surplus	16,860	17,044
Retained Deficit	-7,418	-7,806
Accumulated other comprehensive income (loss)	-378	563
Total Equity	<u>33,780</u>	<u>24,498</u>
Total Liabilities & Equity	<u>\$337,805</u>	<u>\$233,635</u>

Income Statement

HomeTown Bankshares Corporation

Holding company of HomeTown Bank

Consolidated Earnings

Fourth Quarter Earnings:

Three Months Ended December 31

	Unaudited QTD	QTD
	12/31/2009	12/31/2008
	000's Omitted	000's Omitted
Total Interest Income	\$3,936	\$3,093
Total Interest Expense	1,505	1,483
Net Interest Income	2,431	1,610
Provision for loan losses	339	1,052
Net Int. Inc. After Prov. for Loan Losses	2,092	558
Non Interest Income	237	146
Non Interest Expense	2,136	1,610
Net Income Before Taxes	193	-906
Income Taxes	0	0
Net Income	\$193	-\$906
Dividends Accumulated on Preferred Stock, Net	148	0
Net Income Available to Shareholders	\$45	-\$906
<i>Income(loss) per share, basic and diluted</i>	\$0.02	-\$0.31
<i>Weighted average shares outstanding</i>	2,939,400	2,939,400

Year-To-Date Earnings:

Twelve Months Ended December 31

	YTD	YTD
	12/31/2009	12/31/2008
	000's Omitted	000's Omitted
Total Interest Income	\$13,885	\$10,786
Total Interest Expense	5,883	5,548
Net Interest Income	8,002	5,238
Provision for loan losses	725	1,648
Net Int. Inc. After Prov. for Loan Losses	7,277	3,590
Non Interest Income	913	511
Non Interest Expense	7,697	6,276
Net Income Before Taxes	493	-2,175
Income Taxes	0	0
Net Income	\$493	-\$2,175
Dividends Accumulated on Preferred Stock, Net	170	0
Net Income Available to Shareholders	\$323	-\$2,175
<i>Income(loss) per share, basic and diluted</i>	\$0.11	-\$0.80
<i>Weighted average shares outstanding</i>	2,939,400	2,725,488

SUCCESSFULLY BANKING OUR LOCAL BUSINESS COMMUNITY

HomeTown Bank's Commercial and Business Banking portfolios experienced significant growth from our local business owners during 2009. We attribute our success to a strong calling effort and a favorable community-banking environment. These efforts have resulted in new commercial deposit and loan relationships that HomeTown Bank can partner with for years to come.

As our commercial growth in recent years has supported the financing of many creditworthy projects in the community, a more recent emphasis and long-term strategy has been to concentrate our commercial efforts on attracting locally headquartered, operating companies. Numerous businesses in our market area have become HomeTown Bank customers, including many companies that have been established, respected businesses in the community for many years. Some of the industries in which these companies operate include the service, construction, insurance, healthcare, hospitality, and retail industries.

In the current market environment, local business owners have found great comfort in establishing their banking relationship with a community bank whose decisions are made locally by people who are likely to know them rather than by those many miles away. Strong teamwork across our departments, as well as valuable referrals from existing customers, shareholders and board members, have contributed to our success in developing these valuable new relationships.

We continue to explore new and exciting opportunities to serve the banking needs of area business owners, and we remain very optimistic about the prospects for further expansion in the local banking arena. Our commercial relationship managers are able to call in the marketplace with confidence about our competitive product offerings, our reputation in the community and our ability to respond quickly to our customers' needs and those of the markets we serve.

Management and the Commercial Banking team are truly grateful for the support of our Stockholders, Board of Directors and our loyal customers, who give us the privilege to serve their banking needs.

NOTE TO SHAREHOLDERS

Over 700 shareholders have not yet completed the process of converting their HomeTown Bank stock certificates to HomeTown Bankshares Corporation certificates. If you have any questions regarding the process or can no longer find your Letter of Transmittal, please call Linda Caskie at (540) 278-1700. The new symbol for HomeTown Bankshares Corporation is now HMTA.

COMMUNITY

Community involvement is one way we can give back to the area and expand our reach into different segments of the community. Through event participation and sponsorship, we have been able to reach many more people in the markets that we serve. Although we advertise in many different places, including print, outdoor, television, and online, our “one-on-one” communication will always come out ahead when attracting new customers.

We are excited to announce our relationship with Global Spectrum and The Roanoke Civic Center regarding the exclusive naming rights of all tickets issued for events. Starting in January, all tickets to events at The Roanoke Civic Center will be purchased through HomeTownBankTIX.com and 1-877-HTB-TIXNow. This relationship gives us tremendous exposure to a wide array of events from Broadway shows to professional wrestling. Our name is used on all event promotion, including print, television, radio, box office signage, and a large marquee located on a highly traveled road.

On February 2nd, 2010, HomeTown Bank participated in “The \$2 Experiment” in our Downtown Roanoke Office. We partnered with MyScoper.com’s Beth Deel and Wendy Wertz Schuyler, as well as twenty-five local merchants, and handed out (yes, handed out) 500 two-dollar bills to anyone who walked in the door. The \$2 bill was to be spent at the participating merchants with \$2 specials. The response was amazing, and people lined up all the way down the block in the falling snow to receive their two-dollar bill. The local merchants were pleased with the response and we received great coverage on television. Between February 2nd and February 9th, we had a contest where one could register to win two tickets to see Tim McGraw at The Roanoke Civic Center on February 19th. After receiving hundreds of registration forms, we were pleased to contact the winner, Joanne McKay of Scotland. Joanne has been in Roanoke for just one month and is working for an international construction firm in Roanoke for one year. Congratulations, Joanne!

On February 19th, HomeTown Bank sponsored the Roanoke Valley SPCA “Best in Show” art show at The Taubman Museum of Art. We are pet-friendly and encourage customers to bring their “Best Friend” to our branches. If at all possible, please support your local merchants and your HomeTown Bank.

Follow us on:  



In the future, if you would like to receive this newsletter electronically, please contact Linda Caskie at lcaskie@hometownbankva.com



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